



## U.S. COMMODITY FUTURES TRADING COMMISSION

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Division of Clearing and  
Intermediary Oversight

Thomas J. Smith  
Associate Director and  
Chief Accountant

To: All Commodity Pool Operators  
Attention: Chief Financial Officer  
Subject: CFTC Observations on Annual Reports for Commodity Pools  
Date: January 22, 2004

This is the sixth annual letter that the Division of Clearing and Intermediary Oversight (“DCIO”) of the Commodity Futures Trading Commission (“CFTC” or “Commission”) has issued to assist commodity pool operators (“CPOs”) and public accountants with the preparation and filing of annual financial reports required under the Commission’s rules and the Commodity Exchange Act (“CEAct”) by sharing certain observations gleaned from the prior year reports and certain other information about relevant developments during the past year.<sup>1</sup> Similar letters from prior years are available at the CFTC Web site: <http://www.cftc.gov/tm/tmcompliance.htm>.

This letter highlights several accounting and reporting topics, lists recent registration and other regulatory changes affecting CPOs and commodity trading advisors (“CTAs”), and notes common deficiencies observed by the National Futures Association (“NFA”) during its review of 2002 annual reports. CPOs, including those which operate in non-U.S. jurisdictions, are welcome and encouraged to provide this letter to their public accountants.

### I. Accounting and Reporting Topics

#### A) Applicability of GAAP to Commodity Pools’ Annual Financial Statements

CPOs and public accountants should be familiar with the Commission’s regulations in preparing and filing commodity pool annual financial statements, particularly the financial reporting requirements of Rules 4.22(c), (d) and (e). CPOs and public accountants also should be familiar with the interpretative letters issued by DCIO staff that impact commodity pool financial reporting requirements.<sup>2</sup> One such letter is CFTC Interpretative Letter 94-3, *Special Allocations of Investment Partnership Equity*, which addresses how a CPO should report a special allocation of partnership equity to the general partner of an investment partnership in the financial statements of a commodity pool. This document is available on the Commission’s Web site at <http://www.cftc.gov/tm/tmcompliance.htm>. Staff letters, including DCIO staff letters, from 1995 forward are available at the CFTC Web site, <http://www.cftc.gov/opa/opaletters.htm>.

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<sup>1</sup> The Commission’s rules are found in Title 17 of the Code of Federal Regulations. The Act and Commission rules can be accessed through the Commission’s Web site, at: <http://www.cftc.gov/cftc/cftclawreg.htm>.

<sup>2</sup> As of July 1, 2002, a reorganization of Commission staff became effective. For purposes of this letter, the term “DCIO” includes the Division of Clearing and Intermediary Oversight and its predecessor, the Division of Trading and Markets, as the context requires.

Commission rules require that commodity pool annual financial statements be prepared in accordance with United States generally accepted accounting principles (“GAAP”), applied on a consistent basis,<sup>3</sup> including disclosing risk concentrations (e.g., market and credit risk), related party transactions, and recognizing the impairment of investment values. Accordingly, CPOs and public accountants should be familiar with the requirements for commodity pool financial statements that have been issued by the American Institute of Certified Public Accountants (“AICPA”).

GAAP requires that all significant accounting policies followed by an enterprise be disclosed in the notes to its financial statements (Accounting Principles Board Opinion 22). For commodity pools, one of the most significant, if not the most significant, accounting policy is how fair values of investments are determined. Accordingly, CPOs are reminded that such disclosures are required and should quantify values arrived at by the valuation methods specified in the AICPA Audit and Accounting Guide, *Audits of Investment Companies*, paragraphs 2.28 through 2.39.

The requirement that commodity pool annual financial statements be prepared in accordance with GAAP is applicable to pools that are required to distribute annual certified financial statements to pool participants, as well as to certain pools that, while required to distribute annual financial statements to pool participants, are permitted by Commission rule to elect to distribute unaudited financial statements. In reviewing prior years’ audited and unaudited annual financial statements, instances were noted where CPOs filed pool financial statements that failed to comply with GAAP. If a commodity pool’s annual financial statements do not fully comply with GAAP, the CPO may be required to revise the pool’s financial statements and distribute the revised statements to the participants and refile a copy with NFA.

## **B) Non-U.S. GAAP Reporting**

DCIO staff has provided limited relief to CPOs of offshore pools to prepare and present pool financial statements following accounting principles other than U.S. GAAP. The non-U.S. GAAP most commonly used in the preparation of pool financial statements include International, United Kingdom and Irish accounting standards. The Division’s relief was conditioned upon the offshore pools following certain key elements of U.S. GAAP standards, including: 1) reporting of both realized and unrealized gains and losses through the statement of operations, 2) preparing a condensed schedule of investments,<sup>4</sup> and 3) reporting special allocations of partnership equity in accordance with CFTC Interpretative Letter 94-3.

DCIO staff intends to continue to review CPOs’ requests for relief from U.S. GAAP requirements on a case-by-case basis, provided the CPOs prepare an analysis that both indicates and quantifies the differences between a non-U.S. GAAP report and a U.S. GAAP report. For further information on non-U.S. GAAP reports, please contact Ronald Carletta, Supervisory Auditor, or Al Goll, Auditor, at the phone numbers or addresses listed in Appendix A.

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<sup>3</sup> See Commission Rules 4.22(d), 4.12(b)(2)(iii)(B), and 4.7(b)(3)(ii).

<sup>4</sup> As required by Statement of Position (“SOP”) 95-2, subsequently amended by SOP 01-1 and SOP 03-4.

### **C) Reporting of Investments in Futures Contracts in the Condensed Schedule of Investments**

The AICPA recently issued requirements on how commodity pools should report futures contracts in the schedule of investments. Specifically, SOP 03-4, which was issued by the AICPA on December 29, 2003, requires a commodity pool to disclose the number of contracts, range of expiration dates, and cumulative unrealized gains (or losses) on open futures contracts of a particular underlying (such as wheat, cotton, specified equity index, or U.S. Treasury Bonds), regardless of exchange, delivery location, or delivery date, if the cumulative unrealized gains (or losses) on the open futures contracts exceed five percent of the pool's net assets. SOP 03-4 further provides that a CPO may not net long and short positions in futures contracts based upon the same underlying in determining whether the cumulative unrealized gains (or losses) of the open futures contracts exceed five percent of the pool's net assets. SOP 03-4 also requires a commodity pool, among other things:

- To disclose in the condensed schedule of investments the range of expiration or maturity dates and fair values of derivative instruments other than futures contracts based on whether the fair value of a specific type of derivative and underlying (for example, equity index of a particular stock exchange, U.S. Treasury Bond, natural gas, etc.) exceeds, on a gross basis, 5 percent of the pool's net assets, regardless of counterparty.
- To disclose the name, investment objective, and redemption restrictions of any investment in a nonregistered investment partnership that exceeds five percent of the pool's net asset value. (See Section D *Fund-of-Funds Disclosures* below for additional Part 4 requirements for pools that operate as funds-of-funds.)
- To calculate required ratios for average net assets, expenses and net investment income as detailed in SOP 03-4.

SOP 03-4 is effective for fiscal years ending after December 15, 2003. Accordingly, CPOs issuing annual commodity pool financial statements for years ending after December 15, 2003 must comply with SOP 03-4.

### **D) Fund-of-Funds Disclosures**

Effective for annual financial statements issued for fiscal years ending on or after December 15, 2003, GAAP requires a commodity pool that invests over 5 percent of its net assets in nonregistered investment partnerships to disclose certain information about such investments. Specifically, SOP 03-4 requires the disclosure of the name and investment objectives of such nonregistered investment partnership, as well as any restrictions imposed upon redemptions. By requiring such disclosures, GAAP recognizes that a pool's financial statements should provide information about investments in other funds to which the pool devotes significant portions of its capital.

In previous years, CPOs have been required to report amounts of income and fees for nonregistered investment partnerships in which they invested significant portions of their capital (i.e., 10 percent or more of the pool's net assets). The 10 percent reporting threshold was based

on CFTC Rule 4.10(d)(5), which defines an investee fund as a “major investee fund” by using such measurement. The Division, however, is revising the reporting threshold to require a CPO to disclose amounts of income and fees associated with investments in nonregistered investment partnerships that exceed five percent of the pool’s net assets. The five percent threshold is consistent with the reporting thresholds set forth in SOP 95-2 and SOP 03-4 for nonregistered investment partnerships. See Attachment B for an illustration of how such information may be reported.

### **E) Master-Feeder Structures**

Paragraph 7.06 of the AICPA Audit and Accounting Guide, *Audits of Investment Companies*, permits nonpublic feeder pools either to follow the disclosure and reporting provisions of SOP 95-2 or to present a complete set of master financial statements with each feeder financial statement. CPOs who elect to present a complete set of master financial statements with each feeder financial statement are encouraged to bind the two reports together as a single document and to distribute it to the participants and file a copy with NFA. If that is not possible, an acceptable alternative is to staple the back cover of the feeder annual report to the front cover of the master annual report for at least the copy filed with NFA. This would help ensure that reports are reviewed as a complete unit.

### **F) Audit Opinion**

Commission and NFA staff have noted that the audit opinions on some pools’ fiscal year 2002 financial statements took exception because CPOs omitted the required condensed schedule of investments or failed to identify by name investments for which specific disclosure is required by GAAP. In such situations, NFA directed the CPO to revise the financial statements to include the disclosures required by GAAP or Commission rules and to distribute the revised financial statements to pool participants.

### **G) New Pools – Initial Annual Reports**

A CPO that commences operation of a commodity pool is required to prepare an annual report for the pool within 90 days of the pool’s year-end, even if the pool did not operate for a full 12-month period. A pool is deemed to commence operations upon the initiation of investment activities on behalf of participants, and not solely upon the receipt of participants’ contributions.

The Commission may grant a CPO an exemption from the requirement to prepare a certified annual report as of the pool’s initial year-end date in cases where a pool commences operations within three months of the end of its fiscal year. The exemption generally is conditioned upon the CPO commencing operation of the pool within three months of the end of its initial year-end date and the CPO filing with NFA and distributing to pool participants year-end unaudited pool financial statements that are prepared in accordance with GAAP and otherwise complying with Commission rules. The exemption is further conditioned upon the CPO filing a certified annual report as of the date of the pool’s second year-end and must include

an income statement covering the period from the commencement of operations of the pool through the date of the pool's second year-end date. For the full requirements for such an exemption, please contact Kevin Walek, Assistant Director, at <mailto:kwalek@cftc.gov>, or (202) 418-5463.

## **H) Final Annual Reports**

Commission Rule 4.22(c) requires a CPO to file with NFA and to distribute to pool participants a final annual report whenever a pool ceases trading. The final report should be in the same format and include the same information as an annual financial report, even if the final report is not for a full 12-month period. If the final distribution of pool assets has not been made as of the balance sheet date, a subsequent event note to the financial statements should disclose the date on which all pool assets were subsequently, or are expected to be, distributed to the participants. A CPO should clearly state when it intends a report to be a final report. A legend on the cover of the report is an effective way to do so.

The final report is due within 90 calendar days after the end of the pool's fiscal year or the permanent cessation of trading, whichever is earlier, but in no event longer than 90 days after the assets are distributed to pool participants.

## **II. Recent Rule Changes to Part 4 of the Commission's Regulations**

On August 8, 2003, the Commission published amendments to certain of its rules governing CPOs and CTAs. The following is a brief summary of the amendments. Persons wishing to obtain more detailed information concerning the rule amendments should review the final rulemaking published in the *Federal Register*, and available on the Commission's Web site: <http://www.cftc.gov/foia/fedreg03/foi030808a.htm>

### **A) Rule Amendments Impacting Pool Annual Financial Reports**

- ***Permitting electronic distribution of account statements and annual reports to pool participants.*** The CFTC amended Rule 4.22 to permit CPOs to distribute periodic account statements and annual reports to pool participants by electronic means. Prior to transmission of any account statement or annual report to a pool participant by means of electronic media, a CPO must disclose to the participant that it intends to distribute these documents electronically, absent objection from the participant no later than 10 business days following the participant's receipt of the disclosure. Although electronic distribution of the annual report to participants is permitted, Rule 4.22(j)(1)(ii) requires that the annual report the CPO files with NFA must be manually signed.
- ***Modifying authorized signatories for the required oath or affirmation.*** The Commission revised the list of permitted signatories in the Part 4 rules to accommodate other organizational structures under which CPOs and CTAs operate – e.g., limited liability companies. The required oath or affirmation that a pool operator

must include with its account statements and annual reports must now be signed by “a representative duly authorized to bind the pool operator.”

- ***Eliminating duplicative regulatory requirements for “master/feeder fund” structures.*** Rules 4.21 and 4.22 have been revised to indicate that, for purposes of delivery of disclosure documents, account statements, and annual reports, including those provided under Rules 4.7 or 4.12(b), the term “prospective pool participant” does not include a commodity pool operated by a CPO that is the same as, or that controls, is controlled by, or is under common control with, the CPO of the offered pool. However, the annual report of a feeder fund must contain financial statements that include the required information concerning the operations of the master fund.

## **B) Registration and Other Regulatory Changes for Commodity Pool Operators and Commodity Trading Advisors.**

- ***Eliminating trading and marketing restrictions under Rule 4.5.*** Rule 4.5 excludes from the definition of CPO certain otherwise-regulated persons, such as registered investment companies, state-regulated insurance companies, banks and trust companies, in connection with their operation of certain collective investment vehicles. Rule 4.5 qualifying persons are no longer restricted in the amount of futures transactions they can enter into to qualify for the exclusion, or be prevented from marketing themselves as a vehicle for trading commodity interests. Rule 4.5 qualifying persons must disclose in writing to each participant that the pool is operated by a person who is not subject to registration or regulation as a CPO under the CEAct.
- ***Providing additional exemptions from CPO and CTA registration requirements.*** New Rules 4.13(a)(3) and (4) provide additional relief from CPO registration respectively, for operators of pools that: (a) are offered to certain sophisticated persons and have limited futures activity, or that restrict participation to specified Qualified Eligible Persons (QEPs) under Rule 4.7.

*Rule 4.13(a)(3)* allows a pool operator to claim relief from registration according to the following criteria: (1) interests in the pool are exempt from registration under the Securities Act of 1933 ('33 Act) and are not marketed to the public in the United States; (2) the pool may not commit more than 5 percent of the liquidation value of the pool's portfolio to establish commodity interest positions or have a notional value of its commodity interest positions that exceeds 100 percent of the liquidation value of the pool's portfolio; and (3) the pool may include only participants who the CPO reasonably believes are “accredited investors,” certain family trusts formed by accredited investors, “knowledgeable employees,” and persons who are Qualified Eligible Persons (“QEPs”) under Rule 4.7(a)(2)(viii)(A). (Accredited investor is defined in Rule 501(a) of the '33 Act and knowledgeable employee is defined in the Investment Company Act of 1940 (ICA), 17 CFR 270.3c-5 (2003).)

A new Appendix A to Part 4 has been added to provide guidance to operators of funds-of-funds in determining their eligibility for exemption under Rule 4.13(a)(3).

*Rule 4.13(a)(4)* provides an exemption from CPO registration where: (1) interests in the pool are exempt from registration under the '33 Act, and are offered and sold without marketing in the United States; and (2) the CPO reasonably believes that natural person participants are QEPs under Rule 4.7(a)(2), and non-natural person participants are QEPs under Rule 4.7 or accredited investors.

*Rule 4.14(a)(8)(i)(D)* provides CTA registration relief for advisors that provide investment advice solely to commodity pools that meet the requirements of the new CPO registration exemptions discussed above. Rule 4.14(a)(8) also contains other, new CTA registration exemptions.

- ***Facilitating communications by CPOs and CTAs with prospective and existing pool participants and clients.*** Rules 4.21 and 4.31 previously required that CPOs and CTAs deliver a disclosure document to prospective participants or clients prior to soliciting their participation in a pool or trading program. These rules now permit CPOs and CTAs to provide certain information in advance of distributing a disclosure document, as long as the information is consistent with the disclosure document and the disclosure document is provided by no later than the time the CPO delivers a subscription agreement for the pool to the prospective participant, or the CTA delivers an advisory agreement to direct or guide the client's account.
- ***Rate of Return Calculations.*** A new Appendix B to Part 4 provides guidance concerning alternative methods by which CPOs and CTAs may calculate the rate of return information required by Rules 4.25(a)(7)(i)(F) and 4.35(a)(6)(i)(F).

### **C) Effect of Claiming Recent Part 4 Relief on Currently Registered CPOs**

A CPO who withdraws from registration because it has claimed relief under Rules 4.13(a)(3) or (4) remains subject to the annual report requirement of Rule 4.22(c), as has been the case with CPOs who have withdrawn from registration for any other reason. The Commission believes that when a CPO leaves direct CFTC oversight, the CPO's pool participants should get all of the information they are entitled to under Commission regulations up to that time. Accordingly, CPOs generally will not be permitted to withdraw their CFTC registration until they file an annual report for the last year for each pool that was operated subject to direct CFTC oversight and the annual reports have been reviewed by NFA.

The relief under Rules 4.13(a)(3) or (4) is available to CPOs on a pool-by-pool basis. A registered CPO may take advantage of this relief for its existing pools that meet the criteria for the relief; however, the CPO remains subject to the requirement to file final annual reports for these pools for the last year that the pools were operated subject to direct CFTC oversight.

### **D) Effect of Remaining Registered as a CPO**

If a person who is eligible for exemption from registration as a CPO under 4.13 nonetheless registers as a CPO, the person must comply with the Part 4 rules. This includes the filing deadlines for a pool's annual report.

### III. Common Deficiencies Noted During NFA's Review of 2002 Annual Reports

In order to avoid some of the most common and easily remedied deficiencies, CPOs should do the following:

- File one copy of the annual report with NFA at the address set forth in Attachment A below. *CPOs are no longer required to file copies of any such reports with the CFTC.* In addition, applications for extensions of time to distribute annual reports that do not exceed 90 days from the due date need be filed only with NFA. Furthermore, claims for exemption also need be filed only with NFA. Any commodity pool related documents received by the Commission will be forwarded to NFA for review and processing.
- Distribute the annual report and file one copy with NFA as soon as possible, but no later than the due date. For pools with a December 31, 2003 year-end, the due date is Tuesday, March 30, 2004 (unless an extension of time has been requested and granted). CPOs operating a "fund-of-funds" pool should review the streamlined procedures described in Rule 4.22(f)(2) for claiming an extension of the due date. Remember, 2004 is a leap year and reports are expected to be filed with NFA on or before the 90<sup>th</sup> (or 150<sup>th</sup>) day after the pool's year-end, not simply post-marked on the due date.
- Include a signed oath or affirmation, as required by Rule 4.22(h), with each copy of the annual report filed with NFA and distributed to all pool participants. Omitting or not signing the oath continues to be a common deficiency in annual financial report filings. Binding the oath as part of the report package or attaching it to the cover page are best practices followed by a number of CPOs.
- If the pool is operating under the exemptions granted in Rule 4.7 or Rule 4.12, include a notation of that fact on the cover page of the report consistent with the requirements of those regulations.
- Report special allocations of partnership equity as required by CFTC Interpretative Letter 94-3, *Special Allocations of Investment Partnership Equity* (this topic is discussed above).
- Net Asset Value:
  - o For unitized pools, include information concerning net asset value per outstanding participation unit in the pool as of the end of each of the pool's two preceding years.
  - o For non-unitized pools, provide to each participant the total value of that participant's interest or share in the pool as of the end of each of the pool's two preceding fiscal years. For the report filed with NFA, provide a schedule listing each participant's balances for those years. A code for each participant may be used in lieu of the participant's name. *Of course, participants should not receive financial information concerning other participants.*

- If the annual report is unaudited (pursuant to the exemption of Rule 4.7):
  - o The pool operator must make a statement to that effect on the cover page of each report and state that a certified audit will be provided on request of the owners of a majority of the units of participation in the pool who are unaffiliated with the CPO.
  - o The annual report must nonetheless be presented and computed in accordance with GAAP applied on a consistent basis. This includes the requirements of AICPA SOP 95-2, as amended by SOPs 01-1 and 03-4, and CFTC Interpretative Letter 94-3.
  - o The annual report must include all other appropriate footnote disclosures.

#### **IV. DCIO and NFA Contact Information**

If a CPO or a public accountant has any questions, please feel free to contact DCIO staff or NFA staff listed in Attachment A to this letter.

Very truly yours,



Thomas J. Smith  
Associate Director and  
Chief Accountant

## **ATTACHMENT A**

### **ADDRESSES OF CFTC's DIVISION OF CLEARING AND INTERMEDIARY OVERSIGHT OFFICES**

<b>Regional Offices</b>	<b>Contacts</b>	<b>Location of CPO's Principal Office</b>
<b><u>Eastern Region</u></b>		
140 Broadway, 19 <sup>th</sup> Floor New York NY 10005-1146 FAX: (646)-746-9937	Ronald A. Carletta Phone: (646)-746-9726 E-Mail: <a href="mailto:rcarletta@cftc.gov">rcarletta@cftc.gov</a>  Al Goll Phone: (646)-746-9723 E-Mail: <a href="mailto:agoll@cftc.gov">agoll@cftc.gov</a>	All states east of the Mississippi River, <i>except</i> Illinois, Indiana, Michigan, Ohio, and Wisconsin.  Any location outside of the United States
<b><u>Central Region</u></b>		
525 West Monroe Street Suite 1100 Chicago, IL 60661	John S. Dixon Phone: 312-596-0573  FAX: 312-596-0713  E-Mail: <a href="mailto:jdixon@cftc.gov">jdixon@cftc.gov</a>	Illinois, Indiana, Michigan, Ohio, and Wisconsin
<b><u>Southwest Region</u></b>		
4900 Main Street Suite 721 Kansas City, MO 64112	Ralph L. White Phone: 816-931-9502 FAX: 816-931-9643 E-Mail: <a href="mailto:rwhite@cftc.gov">rwhite@cftc.gov</a>	All states west of the Mississippi River

### **NFA ADDRESS**

Patricia Cushing  
Associate Director  
Compliance Department  
National Futures Association  
200 West Madison, 16<sup>th</sup> Floor  
Chicago, IL 60606  
Phone: 312-781-1300  
E-Mail: [pcushing@nfa.futures.org](mailto:pcushing@nfa.futures.org)  
FAX: 312-220-9003  
Web site: <http://www.nfa.futures.org/>

## ATTACHMENT B

### ILLUSTRATION – Condensed Schedule of Investments and Fund-of-Funds Disclosures

Condensed Schedule of Investments Principal Amount, Shares or No. of <u>Contracts</u>	<u>Description</u>	<u>Fair Value</u>	December 31, 2003 <u>Expiration dates</u>	<u>No. of Contracts</u>
	DEBT SECURITIES (41.2%)			
	United States (21.4%)			
	Airlines (6.0%)			
\$3,000,000	Flight Airlines Inc 12%, 7/15/07	<u>\$3,000,000</u>		
	Government (15.4%)			
\$3,000,000	US Treasury Bond, 4.50%, 11/15/07	3,031,791		
	US Treasury Bonds, 3.00%-4.75%, 1/30/05-7/15/07	<u>4,686,175</u>		
		<u>7,717,966</u>		
	Total United States (cost \$15,015,200)	10,717,966		
	Mexico (19.8%)			
	Government			
	United Mexican States, 8.625%- 9.125% 3/12/08-12/7/09 (cost \$10,000,000)	<u>9,922,224</u>		
	TOTAL DEBT SECURITIES (cost \$25,015,200)	<u>20,640,190</u>		
	INTEREST IN INVESTMENT PARTNERSHIP <sup>5</sup> (20.0%) (cost \$8,000,000)			
	Hejmet Fund Ltd. A Cayman Islands company (20% owned)	2,500,000		
	Carron Int'l. Fund, a Bermuda company (25% owned)	2,600,000		
	Marvelous Fund NV, a Netherlands Antilles company (35% owned) (XYZ Hedge Fund LP owns 6,000 shares, valued at \$9,000,000 of Leisure Cruises Inc., which is a US Company in the travel industry. The partnership's share of this investment is valued at \$3,150,000 as of December 31, 200x)	2,800,000		
	Ten other funds	<u>2,100,000</u>		
	TOTAL INVESTMENT PARTNERSHIPS	<u>10,000,000</u>		
	TOTAL INVESTMENTS (61.3%) (cost \$33,015,200)	<u>\$30,640,190</u>		
	FUTURES CONTRACTS (12.5%)			
	Financial (5.2%)			
	Eurodollar (5.2%)	\$2,611,825	Feb-Apr 200X	122
	Indices (5.6%)			
	S&P 500 (5.6%)	2,788,000	Mar-May 200X	89
	Metals (1.7%)	<u>840,000</u>		
	TOTAL FUTURES CONTRACTS	<u>\$6,239,825</u>		
	FORWARDS (11.5%)			
	Argentinean Peso (5.8%)	\$2,910,000	Oct-Nov 200X	
	Other currencies (5.7%)	<u>2,876,315</u>		
	TOTAL FORWARDS	<u>\$5,786,315</u>		

<sup>5</sup> See Note X. Investments, for additional disclosures on Investment Partnerships

## Note X. Investments

As of December 31, 2003, ABC Fund invested in other funds, none of which were related parties.

The following table summarizes ABC Fund's investments in other funds as of December 31, 2003. Funds in which ABC Fund invested more than 5% of its net assets are individually identified, while smaller investments in three other funds are aggregated. The management agreements of the investee funds provide for compensation to the managers in the form of fees ranging from 1% to 3% annually of net assets and performance incentive fees ranging from 5% to 25% of net profits earned.

<u>Investment</u>	<u>% of ABC's Net Assets</u>	<u>Fair Value</u>	<u>Income (Loss)</u>	<u>Fees</u>		<u>Investment Objective</u>	<u>Redemptions Permitted</u>
				<u>Mgmt</u>	<u>Incentive</u>		
Hejmat Fund Ltd.	5.0	\$ 2,500,000	\$200,000	\$ 25,000	\$ 30,000	Emerging market	Quarterly
Carron Int'l Fund	5.2	2,600,000	210,000	26,000	42,000	Sector investment	Monthly
Marvelous Fund NV	5.6	2,800,000	(30,000)	28,000	0	International equity	Semi-Annual
Other funds:	<u>4.2</u>	<u>2,100,000</u>	<u>100,000</u>	<u>24,000</u>	<u>25,000</u>	Other	Monthly- Annually
Total	<u>20.0%</u>	<u>\$10,000,000</u>	<u>\$480,000</u>	<u>\$103,000</u>	<u>\$97,000</u>		

An alternative illustrative table, for *unusual cases*, where the fee information cannot be obtained is shown below:

<u>Investment</u>	<u>% of ABC's Net Assets</u>	<u>Fair Value</u>	<u>Income (Loss)</u>	<u>Fees</u>		<u>Investment Objective</u>	<u>Redemptions Permitted</u>
				<u>Mgmt</u>	<u>Incentive</u>		
Hejmat Fund Ltd.	5.0	\$ 2,500,000	\$200,000	\$ 25,000	\$ 30,000	Emerging market	Quarterly
Carron Int'l Fund	5.2	2,600,000	210,000	26,000	42,000	Sector investment	Monthly
Other funds:	<u>4.2</u>	<u>2,100,000</u>	<u>100,000</u>	<u>24,000</u>	<u>25,000</u>	Other	Monthly-Annually
Subtotal	14.4	7,200,000	510,000	<u>\$75,000</u>	<u>\$97,000</u>		
Marvelous Fund NV	5.6	<u>2,800,000</u>	<u>(30,000)</u>	*	*	International equity	Semi-Annual
Total	<u>20.0%</u>	<u>\$10,000,000</u>	<u>\$480,000</u>				

\* = The fund operator is not able to obtain the specific fee amounts for this fund and does not know what those amounts are. However, management fees are computed based on 1% per year of net asset balances at the beginning of each month; incentive fees are computed based on 20% per year of net income.